

RED CEDAR CORPORATION
STAR ROUTE 705
TROUT CREEK, UTAH
435-693-3143 84083

RECEIVED

11 SEP 29 1998

WATER RIGHTS
SALT LAKE

Dear Mr. George Douglass,

This letter is concerning our lease agreement with you for 20-gallons per minute ("Leased Water") as set forth in our Stipulated Agreement signed and dated May 4, 1991.

Please refer to page 10, paragraph 11 of our above mentioned Stipulated Agreement.

It was agreed we would allow you to connect on to our pipeline for the purpose of this Leased Water. You agreed to make this connection at your sole expense and to present a plan for our review and approval.

We agreed to allow you to temporarily take your Leased Water through a bypass pipe in our dam. We previously discussed how this connection resulted in your inability to divert water during some of the winter because of freezing. In the past you have built fires under the pipe and valve to thaw the ice. This has gone on for many years now. The freezing in the bypass pipe and valve can cause damage to the valve and weaken the concrete in the dam. Lighting fires under the pipe and valve can also cause damage.

You have had many years in which to submit a plan for our review. We had not agreed the existing connection would or could be a permanent connection. The existing connection is detrimental to our diverting structure. Therefore, the existing connection is no longer acceptable.

As you know, the best time to make any connections or alterations to the pipeline is when the water in the stream is low. Therefore, please submit a plan for our review and plan to make any approved connection before freezing temperature this Winter.

We will not allow water to be diverted through the existing connection after November 1, 1998.

Sincerely,


Glen A. Allred (Treasurer)

Date: 10-22-98

CC: State Engineers Office
(John Mann)

pipeline suitable for human consumption. Defendants shall have the right to use the Leased Water as provided in paragraph 9 of this Stipulation, in its "as is" condition. Defendants shall bear all costs involved in the purchase, installation, operation and maintenance of any water treatment facilities that they may wish to install on their own pipeline or water system in order to make the Leased Water they receive from plaintiff's pipeline of potable quality.

11. Plaintiff hereby grants to defendants a revocable license to connect on to plaintiff's pipeline for the purpose of using the Leased Water. This connection shall be made at defendants' sole expense and shall be subject to plaintiff's prior review and approval of the location, type and installation of any such connection, which approval shall not be unreasonably withheld. Defendants shall reimburse plaintiff for its reasonable costs incurred in reviewing any plans and specifications for any such connection. This license may be revoked by plaintiff upon 10 days written notice to defendants of their breach of this Stipulation or upon the termination or non-renewal of the lease provided for in Paragraph 9. hereof. If defendants fail to cure their default within the 10 day notice period, or upon the termination or non-renewal of the lease, plaintiff shall be

entitled to disconnect defendants from its pipeline and/or diversion structure and this license shall automatically terminate. Upon the termination of this license, defendants shall have no further right to take water from plaintiff's pipeline. Any costs incurred by plaintiff in disconnecting defendants shall be reimbursed by defendants.

12. Plaintiff agrees to use its best efforts to use all available water from Red Cedar Creek under its water rights therein in conjunction with its Granite Creek water and to not allow that resource to waste. Plaintiff will endeavor to satisfy its senior irrigation rights through the use of these combined sources of supply and to not create an artificial shortage of water in Granite Creek to defendants' exclusion, when there is water available for plaintiff's use in Red Cedar Creek which, when added to its rights in Granite Creek, might satisfy plaintiff's rights and provide some water for defendants' irrigation use under its junior priority irrigation rights in Granite Creek.

13. Each party shall retain control of their pipeline system, headgates, meters, valves and diversion facilities, subject, however, to the review and monitoring of the River Commissioner to be appointed as provided herein, and the administrative orders of the River Commissioner and/or the